The Thai Economy: The Current State and the Way Forward

Dinner Talk at Japanese Chamber of Commerce

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Part I: Where we are

- **In 2023, Thai economy grew 1.9%YoY, surpassed pre-Covid level in Q3/23 underpinned by strong growth in consumptions and tourism. Yet, the recovery was weaker than expected, especially in Q4/23.**
  - **GDP growth in Q4 was negative on quarter-on-quarter basis at -0.5%[1] due to weaker cyclical tailwinds and stronger structural headwinds.** (+1.7%YoY)
    - **First, exports and manufacturing productions were very soft in Q4, from the combination of cyclical and structural factors**, which the latter is our concerns. For example, the recovery in China has not translated much into our exports, particularly in petrochemical products, which reflects China's greater self-reliance policy.
    - **Second, tourists' spending per trip was less than before despite tourist arrival increasing as expected** at around 28 million persons. Normally we expected to see tourists' spending extremely high in the second half of the year, especially in Q4, but last year it came up to be lower than the first half.
    - **Third, fiscal spending contributed negatively to GDP in Q4 due to the delay of 2024 fiscal budget.** Fiscal spending was down almost 9% lower than the regular fourth quarter. While government consumption (spending on wages and salaries) was not affected, the public investment such as constructions was severely impacted.

Part II: What to expect in 2024

- **In 2024, Thai economy will continue to recover. We expect to see GDP growth this year in the range of 2.5 - 3% YoY** (our latest forecast at MPC Feb 24). **The boost factors that drove the economy last year will persist, while the drag factors will drop off.** Yet GDP figure in Q1/24 is not likely to look pretty, as the drag factors will subside a bit later in the year.
  - **The boost factors that will continue**
    - **Private consumption,** which was the main engine of growth last year (expanded remarkably at 7.1%YoY compared to the past 10-year average of 3.5%), will moderate to around 3%.
    - **Tourism** continuous recovery shall give a better support to growth this year. The tourism sector has a significant impact on Thai economy as the sector accounts for 12% of GDP and employs over 20% of total employment, both directly and indirectly.
  - **The drag factors that will drop off**
    - In 2023, there was a huge **inventories** drawdown, which equivalent to 4% of GDP. We expect that to happen much less this year.
    - **More fiscal spending** would be disbursed once the fiscal budget is approved in April and accelerate in the second half of the year.
    - **Exports** will expand as global good cycle returns (expect export value to be positive in 2024 compared to -1.7%YoY in 2023).
- **On the inflation front, the disinflation process has been faster than expected** (peaked at 8% in August 2022 / 7 months later back to our target range of 1-3%). Recently, headline inflation

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[1] Seasonally Adjusted by BOT

figures were negative and will **remain negative until April**, **but deflation risk is quite low for several reasons.**

  - **First, the recent negative headline inflation was mainly due to supply factor, especially government subsidies on energy and electricity prices.** If we exclude the subsidies, the headline number would still be positive.
  - **Second, the price decreases were not broad-based,** the categories of goods and services with price declines were around 25% of total CPI basket, while the other 75% are either stable or increasing.
  - **Third, inflation expectations are well-anchored within the target range around 2%,** and we do not observe broad weakness in consumption that would usually be observed in deflation circumstances.

- **On the financial front**, **we expect non-performing loans (NPLs) to increase**, **but low chance of an NPL cliff** (NPL is at 2.7% as of Q4/23). **In addition, some corporate bonds may face repayment difficulties, especially in the high yield segment, but impact should be limited and contained. Meanwhile, financial markets will remain volatile.**
  - **Why an increase in NPL is not a surprise:** During the crisis, a lot of measures were implemented to support borrowers, such as regulatory forbearance measures to encourage debt restructuring. When the economy is going back to normal, it is not appropriate to continue with these measures as their continued existence could create undesirable and unintended consequences. With the fact that we have significant shares of borrowers under various kinds of supporting schemes, it is natural that some loans are going to become NPLs.
  - **Financial stability remains sound** with banks' robust capital buffers, high liquidity, and high provisioning levels relative to NPLs.
  - Furthermore, S&P expects NPL to be 3.3% and 3.5% in 2024 and 2025 respectively, lower than previous forecast of 5% for 2024.
  - **Some high yield corporate bonds may face delayed payments and rollover difficulty due to idiosyncratic reasons, but not a systemic problem**. Moreover, the scope of impact is limited since high yield bonds only account for 7% of the whole market and holders are concentrated in high net-worth individuals.
- **THB volatility is high compared to regional peers from various reasons.** (THB depreciated about 6% Year-to-date)
  - **The uncertain magnitude of advanced economies' monetary policy direction has contributed to the volatility.**
  - **Concerns on the domestic front last year** led to 9.9 billion USD outflow from equity and bonds markets. (2024 Year-to-date outflow dropped down to 1.6 billion USD).
  - **However, external stability remains safe and solid,** given current account surplus, high international reserves, and low external debts.

Part III: If the economy continues to recover, why do people feel like it isn't?

- **Despite ongoing economic recovery, many people, especially low-income group, might not feel better off since growth is distributed unevenly.**
  - **40% of consumption growth last year were contributed by only 10% of households, especially high-income group.**
  - **From sectoral perspective, spending was also concentrated in services** (services contributed about 80% of consumption growth)**, especially in hotel and restaurant** which involves only 8% of total employees or around 3.2 million persons. Hence, workers in other sectors might not feel the recovery as strongly as the workers in these sectors.
  - **On the income side, non-farm employee's income improved by 10% compared to pre-COVID level. But the income growth distribution was concentrated in certain groups.** 9

million self-employed workers are still worse off with 9% lower income than the pre-COVID level. (as of Q4/23)

- **Furthermore, high debt burdens and high costs of living make people feel worse off.** (household debt is at 90.9% of GDP in Q3/23, higher than sustainable threshold at 80% / pre-COVID = 84% in Q4/19 / peaked = 95.5% in Q1/21)

Part IV: Policy responses

- **The most important agenda for Thailand is longer-term structural reforms, dealing with increased investment to improve productivity and competitiveness.** To do that, we need to sign more FTAs to gain access to the new markets and streamline regulations to ease business burdens.
- **For the Bank of Thailand (BOT), our priority is to get the monetary and financial policy right by striking balance between growth, inflation, and financial stability.** After COVID, the BOT raised the policy rate in gradual and measured fashion to 2.5%, which is the third lowest country besides Switzerland and Japan. **Looking ahead, to adjust the policy rate we also have to look beneath the headlines to ensure that the rate is appropriate for supporting long-term sustainable growth.**
- **In terms of credit condition, the credit mechanism is still working. Total loan outstanding declined partly from debt repayments, while new loan has been expanding.** However, credit allocation is uneven, especially for SMEs. Shrinking credit to SMEs may reflect risk appetite of banks. The appropriate mechanism to address this problem is a more **comprehensive credit guarantee scheme.**
- **In the longer term, the BOT is laying the foundations for the future financial landscape, particularly digital and green economy to ensure sustainable growth.**
    - **On digital front**, we are issuing **virtual bank** licenses[2], which is intended to encourage a new form of competition in the banking landscape. **Open data** is a potential game changer in trying to increase competition. This policy aims to build a mechanism that allows consumers to exercise their rights to conveniently and securely transfer their data stored at one provider to another so that consumers can apply for and receive better services from any providers.
    - **On transition to green economy**, **we are setting the direction for financial sector to support economic transition towards environmental sustainability** (from brown to less brown) such as financial products and services that would accommodate businesses, particularly SMEs, in making their environment-related transitions.

[2] We expect the virtual bank to commence operation in 2026.